



## Brazil May Keep Rate at 11.25% as Officials Gauge Inflation

By Andre Soliani



[Enlarge/Details](#)

Jan. 23 (Bloomberg) -- Brazil's central bank will probably keep its benchmark interest rate unchanged for a third straight meeting as policy makers gauge whether an acceleration in inflation is temporary.

Bankers will keep the rate at 11.25 percent, according to all 41 analysts surveyed by Bloomberg. Against the backdrop of rising prices and Brazil's fastest growth since 2004, central bank President Henrique Meirelles on Oct. 17 paused after 18 straight cuts, the longest cycle of easing since Brazil adopted inflation targets in 1999.

Policy makers may be betting that a worldwide economic slowdown will reduce Brazil's inflation rate by cutting demand for commodities, even after consumer prices jumped the most in more than two years in December. The U.S. Federal Reserve unexpectedly cut its benchmark rate by three quarters of a percentage point yesterday.

“A global growth slowdown could help cool down Brazil's economy, and might rein in commodity prices and global food price inflation,” said Marcelo Carvalho, an economist at Morgan Stanley in Sao Paulo.

Inflation quickened to 0.74 percent last month, led by food, the fastest pace since October 2005. Economists raised their forecasts for annual inflation to 4.31 percent from less than 4 percent in November, according to a central bank survey published Jan. 21.

### Global Uncertainties

“Global uncertainties reinforce the view that the central bank will prefer to remain on hold for a while,” Carvalho said.

The central bank will monitor inflation to see whether it threatens its 4.5 percent target, before deciding to extend rate cuts, or reverse course and increase borrowing costs, economists said.

“It would be hasty at this point to imagine the inflation trend will continue to worsen,” said Roberto Padovani, a senior strategist at WestLB AG in Sao Paulo. “The central bank is by definition cautious and will wait for more information.”

To be sure, traders are forecasting higher rates. The yield on the interbank deposits future rate contract due January 2009 traded at 11.97 percent yesterday, above the current Selic rate.

Elsom Yassuda, chief economist with Credit Suisse Hedging Griffo in Sao Paulo, says the premium may be justified because in “the short-run the risks are for an increase.”

Since president Luiz Inacio Lula da Silva took office in 2003, the overnight rate has fallen by more than half. Still, the real interest rate, or the difference between the 11.25 percent Selic benchmark lending rate and 4.46 annual inflation, is the highest in Latin America, according to Bloomberg data. Brazil's real rate is at 6.79 percent.

“Reducing real rates will not be a short time proposition,” Pedro Tuesta, senior economist for Latin America at 4Cast Inc., said in a telephone interview from Washington. “Everybody thought inflation was conquered, but now we think it is coming back.”

To contact the reporter on this story: Andre Soliani in Brasilia at [asoliani@bloomberg.net](mailto:asoliani@bloomberg.net)

Last Updated: January 22, 2008 21:01 EST

